TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE

FISCAL MEMORANDUM

SB 1908 – HB 1950

March 6, 2014

SUMMARY OF ORIGINAL BILL: Enacts the Annual Coverage Assessment Act of 2014, which establishes an annual coverage assessment on hospitals of 4.52 percent of a covered hospital's annual coverage assessment base.

FISCAL IMPACT OF ORIGINAL BILL:

Increase State Revenue - $449,800,000/FY14-15/
Maintenance of Coverage Trust Fund
Increase State Expenditures - $449,800,000/FY14-15/
Maintenance of Coverage Trust Fund

Increase Federal Expenditures - $826,559,200/FY14-15/
Maintenance of Coverage Trust Fund

Revenue recognition in the amount of $449,800,000 is included in the Governor's proposed FY14-15 budget. Corresponding non-recurring appropriations in the amount of $1,276,359,500 ($449,800,000 in state funds and $826,559,500 in federal matching funds) are also included.

SUMMARY OF AMENDMENT (013120): Deletes all language after the enacting clause. Enacts the Annual Coverage Assessment Act of 2014 (the Act), which establishes an annual coverage assessment on hospitals of 4.52 percent of a covered hospital's annual coverage assessment base and is required to be paid in equal quarterly installments. The Bureau of TennCare will send a notice of payment and a return form to each covered hospital 30 days prior to the payment date. A penalty of $500 a day is imposed on a hospital that does not pay the assessment by the due date. The covered hospital is also subject to disciplinary action under the licensing laws applicable to the hospital. Prorated payments are authorized for a covered hospital that ceases operation after the effective date of the Act. A covered hospital is prohibited from increasing charges or adding surcharges based on or as a result of the annual coverage assessment. A TennCare managed care organization is prohibited from implementing across the board reductions in rates that are in existence on July 1, 2014, for hospitals and physicians by category or type of provider, unless mandated by the Centers for Medicare and Medicaid Services (CMS). A Maintenance of Coverage Trust Fund (the Fund) consisting of all annual coverage assessment collections and investment earnings credited to the assets of the Fund is established. Assessment payments, investment earnings, and federal matching funds are required to be available to the Bureau and only expended for benefits and services that would have been subject to reductions or eliminations from the FY13-14 TennCare budget; for refunds to hospitals for payments of assessments or penalties to the Bureau through error, mistake, or a determination that the payment was invalidly imposed; and for reimbursements to hospitals to offset losses for services provided to TennCare enrollees (assessment payments only).

The implementation of the annual coverage assessments is dependent upon approval of additional hospital payments by CMS and a determination by CMS that the payments will not reduce federal participation in the TennCare program. Critical access hospitals, state mental health hospitals, rehabilitation and long-term care acute hospitals, St. Jude Children's Research Hospital, and the state and local government hospitals are exempt from the annual coverage assessment. Beginning September 1, 2014, and on a quarterly basis thereafter, TennCare is required to report the status of the determination and approval by CMS, the balance of the Fund, and the extent to which the funds have been used, to both of the Finance, Ways and Means Committees, the Senate Health and Welfare Committee, and the House Health Committee. This bill takes effect July 1, 2014, and terminates on June 30, 2015.

FISCAL IMPACT OF BILL WITH PROPOSED AMENDMENT:

Unchanged from the original fiscal note.

Assumptions for the bill as amended:

- According to the Bureau of TennCare, the 4.52 percent annual coverage assessment on hospital net revenues (as reported to CMS) will result in an increase in revenue to the Maintenance of Coverage Trust Fund (MCTF) of $449,800,000.
- A total of $16,000,000 will be provided to the critical access hospitals. Of this amount, $6,000,000 will be 100 percent state funds and will not receive a federal match because it is above the limit within the federal waiver.
- According to the Bureau, $443,800,000 ($449,800,000 - $6,000,000) will be expended at a state rate of approximately 34.935 percent and will receive federal matching funds at a rate estimated at 65.065 percent. The resulting increase in federal funds will be approximately $826,559,200.
- The total increase to the MCTF is approximately $1,276,359,200 ($443,800,000 + $6,000,000 + $826,559,200).
- According to the Governor's FY14-15 proposed budget, approximately $734,336,500 ($256,540,400 state + $477,796,100 federal) of this amount will be expended towards restoring budget reductions and $542,023,000 ($193,259,600 state + $348,763,400 federal) will be expended towards hospitals for unreimbursed costs of providing services to TennCare enrollees.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.

Lucian D. Geise, Executive Director

/kml